ISSN 2368-8874

BULLETIN D'INFORMATION

February 10, 2015 2015-2

MINISTERIAL STATEMENT CONCERNING IMPROVEMENTS TO THE TAX HOLIDAY FOR LARGE INVESTMENT PROJECTS

The Minister of Finance, Carlos Leitão, today announced in a Ministerial Statement improvements to the tax holiday for large investment projects. This information bulletin discloses the Ministerial Statement and announces further enhancements to the tax holiday.

For information concerning this information bulletin, contact the Secteur du droit fiscal et des politiques locales et autochtones at 418 691-2236.

The English and French versions of this bulletin are available on the Ministère des Finances website at www.finances.gouv.qc.ca.

Ministerial Statement

by

Carlos Leitão
Minister of Finance

Concerning Improvements to the Tax Holiday for Large Investment Projects

February 10, 2015

Thank you, Mr. President.

I want to reaffirm today our government's commitment to making the recovery of the Québec economy and job creation its priority.

Mr. President, as we mentioned in the December economic update, and as shown by recent economic indicators:

— economic growth is picking up in Québec;

— over the past 9 months, 34 900 jobs were created in Québec, following a loss of 28 500 jobs in the first 4 months of 2014;

— third, the U.S. economy continues to strengthen and our exports are getting a boost from the Canadian dollar.

Our businesses must take advantage of this favourable situation to invest, increase their production capacity, innovate and meet the competition head-on. We want to encourage them to do more.

As you know, private investment spurs economic growth. Among other things, it helps bolster productivity, disseminate innovation and bolster exports.

Companies that invest in Québec must do so in a favourable business climate.

We have taken a number of actions to restore such a climate, first by putting public finances in order, but also by creating conditions favourable to investment.

NEW TAX HOLIDAY

That is the logic behind the introduction of an improved tax holiday I am announcing today for businesses that carry out large investment projects in Québec.

I am announcing that businesses will now be able to claim a tax holiday equivalent to 15% of their investment in respect of new investment projects worth $100 million or more.

— The holiday is in respect of income tax and the payroll tax.

  – The activity sectors that will be able to claim the tax holiday are the manufacturing, wholesale trade, warehousing, and data processing and hosting sectors.

— In addition, to take into account the reality of the regions and further stimulate regional investment, the accessibility threshold for new projects will be reduced from $200 million to $75 million.

Our government understands the economic reality of the regions. For example, the most remote regions can still claim an enhanced investment tax credit compared with the central regions. The enhanced credit can be up to 32%. Remote regions such as Gaspésie and Îles-de-la-Madeleine already have access to this enhanced tax credit for activities such as marine products processing.

Thus, with the measure announced today, Québec will be able to attract a larger share of investments throughout its territory, by taking into account the reality of regional investment projects.

Improvements have also been made to other terms and conditions of the tax holiday. An information bulletin will be published in that regard today.

ECONOMIC IMPACT: $4 BILLION MORE IN PRIVATE INVESTMENTS

By the end of 2017, the tax holiday will provide support enabling at least 25 new projects, representing investments totalling nearly $4 billion, to be carried out. These projects will lead to the creation of over 15 000 new jobs in the years to come.

This measure is in addition to the other measures we have implemented since the budget to stimulate economic growth, which represent more than $1 billion over 3 years.

In total, the measures taken since we came to power will provide support for private investments throughout Québec worth nearly $12 billion.

The return to a balanced budget, which we will confirm in the budget to be tabled in a few weeks, will mark the turning point in our actions. We stepped up to the plate to put our public finances in order, and I can guarantee you that we will put the same energy into ensuring that Québec benefits from robust economic growth.

The measure we are announcing today bears that out. It is a message for entrepreneurs and investors.

Québec is once again a place conducive to investment. This message could not be clearer: Be confident, invest in Québec, in all our regions. Our government is there to support you.

Together, we are working to advance Québec along the path to prosperity.

Thank you, Mr. President!

Additional Information Concerning Improvements to the Tax Holiday for Large Investment Projects Announced in the Ministerial Statement Delivered on February 10, 2015

IMPROVEMENTS TO THE TAX HOLIDAY FOR LARGE INVESTMENT PROJECTS

In Budget Speech 2013-2014,[1] a tax holiday for large investment projects was introduced.[2]

Briefly, a corporation that carries out, after November 20, 2012, a large investment project in Québec may, under certain conditions, enjoy a tax holiday on the income from its eligible activities relating to the project and a holiday from employer contributions to the Health Services Fund (HSF) regarding the portion of wages paid to its employees attributable to the time they devote to such activities.

Similarly, a partnership that carries out, after November 20, 2012, a large investment project in Québec may, under certain conditions, enjoy a holiday from employer contributions to the HSF regarding the portion of wages paid to its employees attributable to the time they devote to eligible activities relating to the project. A corporation that is a member of the partnership may enjoy a tax holiday on its share of the income from eligible activities of the partnership relating to the project.

The tax holiday lasts 10 years. It begins on the later of the date that eligible activities relating to the investment project begin to be carried on or the date that the total capital investments attributable to the carrying out of the project reach the capital investment threshold applicable to the project. However, the tax holiday for large investment projects may not begin after the day that follows the end of the 48-month period beginning on the date that the initial certificate in respect of the project was issued.

The tax assistance relating to a large investment project may not exceed 15% of the total eligible capital investments relating to the project determined on the date that the tax holiday begins.

To claim the tax holiday, a corporation or partnership must obtain an initial certificate and annual certificates issued by the Minister of Finance. An application for an initial certificate must be made before the investment project begins to be carried out and before November 21, 2015.

To qualify as a large investment project, an investment project must, among other things, concern activities in the manufacturing, data processing and hosting, wholesale trade or warehousing sectors. The investment project must also meet a requirement to reach the capital investment threshold applicable to the project within a 48-month investment period beginning on the date that the initial certificate in respect of the project was issued, and to maintain the threshold for the duration of the tax holiday.

---

1 MINISTÈRE DES FINANCES ET DE L'ÉCONOMIE DU QUÉBEC, *Budget 2013-2014 – Budget Plan*, November 20, 2012, pp. H.23-H.32.

2 This tax holiday was formerly designated by the abbreviation "THI."

When the tax holiday was introduced, an investment project had to reach a capital investment threshold of $300 million to qualify for the holiday. In information bulletin 2013-10[3] of October 7, 2013, the capital investment threshold qualifying an investment project for the tax holiday was reduced to $200 million in respect of projects that had not begun to be carried out on that date and for which an application for an initial certificate had not been filed before that date.[4]

To encourage the carrying out of still more projects with a structuring effect on Québec's economy, an additional period will be granted to apply for an initial certificate for the purposes of the tax holiday, and the capital investment threshold will again be reduced. The 48-month investment period will be extended and the Minister of Finance will have discretion, in certain circumstances, to suspend the time limit for making capital investments. In addition, changes will be made to the parameters for determining the start of the tax holiday. Lastly, the tax holiday will be extended.

❑ Postponement of the time limit for applying for an initial certificate

To claim the tax holiday for large investment projects, a corporation or partnership must, among other things, file an application for an initial certificate in respect of its investment project before the project begins to be carried out and no later than November 20, 2015. The November 20, 2015 time limit to apply for an initial certificate will be postponed for two years.

The *Act respecting the sectoral parameters of certain fiscal measures*[5] will be amended so that, to claim the tax holiday for a large investment project, a corporation or partnership, as the case may be, will be required to file an application for an initial certificate to the Minister of Finance in writing before its large investment project begins to be carried out and no later than November 20, 2017.

❑ Reduction of the capital investment threshold qualifying an investment project for the tax holiday

To qualify for the tax holiday for large investment projects, a project must, among other things, meet a requirement to reach a capital investment threshold of $300 million or $200 million, as applicable, within a particular investment period.[6]

---

3 MINISTÈRE DES FINANCES ET DE L'ÉCONOMIE DU QUÉBEC, Information Bulletin 2013-10, October 7, 2013, pp. 34-35.

4 A corporation or partnership having filed an application for an initial certificate before October 7, 2013 in respect of an investment project that had not begun to be carried out on that date may apply to the Minister of Finance in writing to avail itself of the reduction of the capital investment threshold to $200 million. The application must be filed before November 21, 2015 and no later than the time at which its first application for an annual certificate is filed in respect of the investment project.

5 CQLR, chapter P-5.1.

6 "Investment period" means the maximum period available to a corporation or partnership to make capital investments for a minimum amount corresponding to the capital investment threshold applicable to the project. When the tax holiday was introduced, the investment period ended 48 months after the date that the initial certificate was issued to the corporation or partnership in respect of the investment project. This information bulletin extends that period. See "Extension of the investment period" of the bulletin in this regard.

The *Act respecting the sectoral parameters of certain fiscal measures* will be amended so that a project may qualify as a large investment project, for the purposes of the tax holiday, where the total capital investments attributable to the carrying out of the project in Québec reach $100 million no later than the end of the investment period applicable to the project, and where the project meets all the other eligibility conditions otherwise established.

The reduction in the capital investment threshold will also apply to the requirement to maintain the threshold for the duration of the tax holiday.

■ Application date

The amendments relating to the reduction of the capital investment threshold to $100 million will apply to an investment project that begins to be carried out after the day of publication of this information bulletin and for which an application for an initial certificate has not been filed before that day.

These amendments may also apply to an investment project that begins to be carried out after the day of publication of this information bulletin and for which a corporation or partnership filed an application for an initial certificate before that day. To that end, the corporation or partnership must apply to the Minister of Finance in writing before November 21, 2017 but no later than the time its first application for an annual certificate is filed in respect of the investment project.[7]

❑ Additional reduction of the capital investment threshold qualifying an investment project carried out in an eligible region for the tax holiday

To broaden the scope of the tax holiday for large investment projects and further stimulate the carrying out of such projects in the eligible regions, the *Act respecting the sectoral parameters of certain fiscal measures* will be amended so that a project carried out in an eligible region qualifies as a large investment project, for the purposes of the tax holiday, where the total capital investments attributable to the carrying out of the project in Québec reach $75 million no later than the end of the investment period applicable to the project, and where the project meets all the other eligibility conditions otherwise established.

To avail itself of the additional reduction of the capital investment threshold, a corporation or partnership must show, to the satisfaction of the Minister of Finance, that all or substantially all of its investment project will be carried out in an eligible region and that all or substantially all of the activities arising from the project will be carried on in such a region during the tax holiday.

All or substantially all of an investment project will be carried out in an eligible region if 90% or more of the total capital investments attributable to the carrying out of the project, calculated at the time the tax holiday begins in respect of the project, are made to acquire goods and services intended for an establishment of the corporation or partnership located in the eligible region.

---

7 For greater clarity, a corporation or partnership having filed an application for an initial certificate before October 7, 2013 in respect of an investment project that had not begun to be carried out on that date may apply to the Minister of Finance in writing before November 21, 2015 to avail itself of the $200-million capital investment threshold, according to the conditions set forth in information bulletin 2013-10 (see note 4 in this regard).

For greater clarity, the definition of "total capital investments attributable to the carrying out of an investment project,"[8] used to qualify a project for the tax holiday, will be used to qualify a project for the additional reduction of the capital investment threshold applicable to projects carried out in an eligible region.

The Minister of Finance will therefore not be able to issue an annual certificate to the corporation or partnership for a taxation year or fiscal period, as applicable, unless the corporation or partnership shows, to the Minister's satisfaction, that all or substantially all of the activities arising from the investment project were carried on in an eligible region during the taxation year or fiscal period.

Moreover, a corporation or partnership whose investment project qualifies for the tax holiday as a result of the $75-million capital investment threshold must maintain the threshold in an eligible region for the duration of the tax holiday.

■ Eligible regions

For the purposes of the additional reduction of the capital investment threshold, the eligible regions will be the territories included in the following administrative regions, regional county municipalities (RCMs) and urban agglomeration:

— Abitibi-Témiscamingue;

— Bas-Saint-Laurent;

— Côte-Nord;

— Gaspésie–Îles-de-la-Madeleine;

— Nord-du-Québec;

— Saguenay–Lac-Saint-Jean;

— in the Capitale-Nationale administrative région, the Charlevoix-Est RCM;

— in the Estrie administration region, the Granit RCM and the Haut-Saint-François RCM;

— in the Laurentides administrative region, the Antoine-Labelle RCM;

— in the Mauricie administrative region, the Mékinac RCM and the urban agglomeration of La Tuque;

— in the Outaouais administrative region, the Pontiac RCM and the Vallée-de-la-Gatineau RCM.

---

8 This expression is defined in section 8.7 of Schedule E to the *Act respecting the sectoral parameters of certain fiscal measures*, as proposed in section 575 of Bill 13, *An Act to give effect to the Budget Speech delivered on 4 June 2014 and to various other fiscal measures*, introduced in the National Assembly on December 4, 2014.

■ Application date

These amendments relating to the additional reduction of the capital investment threshold qualifying an investment project carried out in an eligible region will apply in regard to an investment project that begins to be carried out after the day of publication of this information bulletin and for which an application for an initial certificate was not filed before that day.

These amendments may also apply to an investment project that begins to be carried out after the day of publication of this information bulletin and for which a corporation or partnership filed an application for an initial certificate before that day. To that end, the corporation or partnership must apply to the Minister of Finance in writing before November 21, 2017 but no later than the time its first application for an annual certificate is filed in respect of the investment project.

❑ Extension of the investment period

The *Act respecting the sectoral parameters of certain fiscal measures* provides that, to claim the tax holiday for an investment project, a corporation or partnership must have, among other things, no later than the end of the 48-month period beginning on the date that the initial certificate in respect of the project was issued, made capital investments attributable to the carrying out of the project for a minimum amount corresponding to the capital investment threshold applicable to the project. This investment period will be extended by 12 months.

A corporation or partnership will therefore have a 60-month period beginning on the date that the initial certificate in respect of a large investment project was issued to make capital investments attributable to the carrying out of the project for a minimal amount reaching the capital investment threshold applicable to the project.

■ Application date

This amendment to the *Act respecting the sectoral parameters of certain fiscal measures* will apply to an investment project in respect of which an initial application for an annual certificate was not made before the day of publication of this information bulletin.

❑ Discretion granted to the Minister of Finance with respect to the investment period

To claim the tax holiday for large investment projects, a corporation or partnership must, among other things, file an application for an initial certificate with the Minister of Finance before its investment project begins to be carried out. Therefore, to ensure that this condition is met, one of the first steps the corporation or partnership must take before doing anything else with respect to the project is to apply for eligibility for the tax holiday.

However, special authorizations may have to be obtained for certain investment projects. A certificate of authorization issued by the government under the *Environment Quality Act*[9] is one such example. In such cases, starting or continuing the work relating to the carrying out of the investment project may be delayed until the corporation or partnership obtains the authorization concerned.

9 CQLR, chapter Q-2.

Such a delay may ultimately hinder the corporation or partnership in meeting the requirement to reach the capital investment threshold within the 48-month or 60-month investment period, as applicable, beginning on the date that the initial certificate was issued in respect of the project.

To avoid penalizing a corporation or partnership for administrative delays beyond its control, the *Act respecting the sectoral parameters of certain fiscal measures* will therefore be amended to allow the Minister of Finance, where he believes that the corporation or partnership cannot begin or continue to carry out its project without obtaining an authorization from the Québec government, the Canadian government, one of their respective departments or a Québec municipality, and where circumstances so warrant, to temporarily suspend the corporation's or partnership's 48-month or 60-month time limit, as applicable, for making capital investments.

■ Application date

This amendment to the *Act respecting the sectoral parameters of certain fiscal measures* will apply to an investment project for which an application for an initial certificate was made after November 20, 2012.

❑ Changes to the parameters for determining the start of the tax holiday

Sometimes a corporation or partnership gradually begins to carry on its eligible activities relating to the large investment project rather than beginning its operations once its project has been finalized.

To take into account this situation and the extension of the investment period announced in this information bulletin, changes will be made to the parameters for determining the start of the tax holiday.

The *Act respecting the sectoral parameters of certain fiscal measures* will therefore be amended so that a corporation's or partnership's tax holiday for a large investment project starts on the later of the following dates:

— the date that the capital investment threshold applicable to the investment project is reached;[10]

— the date that the eligible activities relating to the large investment project begin to be carried on or, where the corporation or partnership gradually begins to carry on its eligible activities relating to the large investment project, the date that 90% of the goods intended for use in eligible activities relating to the large investment project are ready for use in such activities.

However, the tax holiday for large investment projects may not start after the day that follows the end of the 60-month period beginning on the date that the initial certificate in respect of the project was issued.

10 The capital investment threshold applicable to the investment project may be $300 million, $200 million, $100 million or $75 million, as applicable.

To determine the date that a corporation's or partnership's tax holiday starts, the 90% threshold respecting goods intended for use in eligible activities relating to the large investment project and ready for use in such activities will be reached at the time the proportion that the total capital investments made by the corporation or partnership to acquire such goods[11] ready for use at that time, is to the total planned capital investments relating to the investment project,[12] determined at the time the initial certificate in respect of the project was issued, and attributable to the acquisition of such goods, reaches 90%.

■ Application date

The changes to the parameters for determining the date on which the tax holiday starts will apply to an investment project for which a first application for an annual certificate was not made before the day of publication of this information bulletin.

❑ Extension of the tax holiday

Under the *Taxation Act*,[13] a corporation or partnership with an investment project qualifying for the tax holiday for large investment projects may claim the tax holiday for a ten-year period. The *Taxation Act* will be amended to extend the duration of the tax holiday by five years.

For greater clarity, the 15-year tax holiday will apply to large investment projects qualifying for the tax holiday for which an application for an initial certificate was made after November 20, 2012.

---

11 For greater clarity, to determine this proportion, the total capital investments made to acquire goods intended for use in eligible activities arising from the large investment project will correspond to the expenditures of a capital nature incurred, from the beginning of the carrying out of the investment project, to acquire such goods with a view to establishing in Québec the business or part of the business in connection with which activities arising from the large investment project are carried on, or with a view to increasing or modernizing the production of such a business or part of a business in Québec, without taking into account the capital investments that are related to the purchase or use of land or the acquisition of a business already carried on in Québec.

12 For greater clarity, to determine this proportion, the total planned capital investments relating to the investment project and attributable to the acquisition of goods that will be used as part of eligible activities arising from the large investment project will correspond to the expenditures of a capital nature that the corporation or partnership plans to incur, from the beginning of the carrying out of the investment project, in order to acquire such goods with a view to establishing in Québec the business or part of the business in connection with which activities arising from the large investment project are carried on, or with a view to increasing or modernizing the production of such a business or part of a business in Québec, without taking into account the capital investments that are related to the purchase or use of land or the acquisition of a business already carried on in Québec. The corporation or partnership must submit a list of such expenditures to the Minister of Finance before the initial certificate in respect of the investment project is issued.

13 CQLR, chapter I-3.